

Richtek Technology Corporation

Currency saves it for now, but underlying margin trend is weakening

- We stay Neutral but cut our price target to NT\$160:** We reduce our FY09 sales/earnings estimates by 8.1%/5.7% to factor in downward changes to our end demand/ASP/exchange rate assumptions (-5.8%/-0.8%/-1.5%). We stay Neutral and cut our price target to NT\$160 (Dec-09) based on 15x FY09E EPS from NT\$190 (Jun-09). However, we advise investors to not be overly bearish on this company, and we could turn more positive if margins stabilized. A key downside risk is demand in computing coming down sharply.
- Better 2H08 GM than previously guided:** Richtek reported non-audited 3Q GM of 39.4%, up 120bp Q/Q and 1.2%/2% ahead of our/consensus expectations. The company attributed this upside to product mix, cost reduction, and the currency, but did not provide a breakdown. CFO Scott Wang attended the meeting for the first time and provided a clear 4Q guidance for sales to go down 5%-10% Q/Q (vs seasonality of -5% to +19%) and GM to fall between 38% and 40%.
- Weakening underlying GM as competition may be worse than expected:** It's quite likely that the company will achieve its 4Q guidance; however, we still hold our view that the GM will fall below 36% in 2009 due to competition and US dollar depreciation. We see evidence of ASP/competition pressure in 1) sales from communication being down 3% Q/Q and 24% Y/Y due to market share loss to TI, and 2) subject to the same NT\$ depreciation, other local companies such as GMT reported more improvements in the GM.
- Lack of disclosure consistency may spoil our valuation:** Expectation management was excessive in the past few weeks, in our view, leading to a roller-coaster ride of changes in margin expectations. Attendees at the analyst meeting also appeared perturbed by changes in disclosure on: 1) re-classification of revenue breakdown; and 2) disclosing gross profit in a standalone manner. Such an unpredictability of events may derail the valuation premium Richtek used to enjoy.

Neutral

6286.TW, 6286 TT

Price: NT\$183.50

▼ **Price Target: NT\$160.00**
Previous: NT\$190.00

Taiwan

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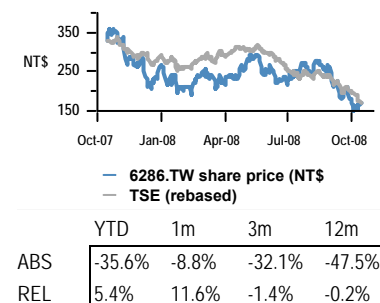
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Price Performance



Reuters: 6286.TW, Bloomberg: 6286 TT

NT\$B, year-end Dec.	FY05	FY06	FY07	FY08E	FY09E	FY05	FY06	FY07	FY08E	FY09E			
Sales	2.68	4.30	6.06	7.20	7.75	Y/E BPS (NT\$)	13.9	21.5	30.1	23.9	13.9	52-Week range	NT\$152.5-360.0
Operating Profit	0.57	1.32	1.86	1.66	1.66	ROE (%)	35.9	55.7	53.2	44.9	35.9	Market cap	NT\$24.5B
EBITDA	0.65	1.42	1.99	1.82	1.83	CORE ROIC (%)	71.5	127.3	129.7	97.6	71.5	Market cap	US\$0.77B
Pre Tax Profit	0.55	1.26	1.82	1.59	1.59	adj ROE (%)	10.2	8.2	24.4	44.9	10.2	Enterprise value	NT\$24.0B
Net profit	0.55	1.24	1.77	1.435	1.42	adj CORE ROIC (%)	25.6	32.2	70.9	97.6	25.6	Shares out. (Com)	134Mn
MV of Employee Bonus	0.38	1.03	0.84	0.32	0.32	Cash Div. (NT\$/Share)	1.5	1.7	3.9	8.5	1.5	Free float	65%
Adjusted Net Profit	0.18	0.23	0.96	1.44	1.42	Quarterly EPS (NT\$)	1Q	2Q	3Q	4Q		Index	5,291.56
New Taiwan GAAP EPS ***	1.47	1.80	7.43	10.88	10.58	EPS (FY07) E	2.26	2.56	3.22	2.83		Exchange rate	NT\$32.0/US\$1
New Taiwan GAAP P/E (x)	124.8	101.9	24.7	16.9	17.3	EPS (FY08) E	2.35	2.39	2.78	3.06		Avg daily vol:	4.12Mn
Cash	0.76	1.66	2.18	1.50	1.85	Performance	1 M	3 M	12 M			Avg daily val:	US\$30.69Mn
Gross Debt	0.04	0.05	0.06	0.03	0.03	Abs. Per.(%)	-20.0	-17.4	-18.3			QFII	29%
Equity	1.7	2.7	3.9	3.2	3.7	Rel. Per.(%)	-7.2	7.1	18.5			Date of price	14 Oct. 2008

Source: Company, Bloomberg, J.P. Morgan estimates. ***Retroactive adjustment for employee bonus expense is done for like-to-like comparison.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Valuation and earnings estimate revisions

We trim our FY09 EPS estimate by 5.7% to reflect the new 4Q08 guidance and end demand/ASP/exchange rate assumptions (-5.8% / -0.8% / -1.5%). Our 2009 top-line estimate points to 8% Y/Y growth. For 2009, we now expect NB and panel end demand to grow 19%/15% instead of 28%/30%.

Table 1: Richtek – Summary of earnings forecast revisions

	New				Prior				Change			
	3Q08E	4Q08E	2008E	2009E	3Q08E	4Q08E	2008E	2009E	3Q08E	4Q08E	2008E	2009E
Sales	2,031	1,904	7,200	7,754	2,009	1,890	7,164	8,439	1.1%	0.8%	0.5%	-8.1%
Gross profit	800	723	2,786	2,769	768	681	2,713	2,956	4.1%	6.2%	2.7%	-6.3%
Gross margin	39.4%	38.0%	38.7%	35.7%	38.2%	36.0%	37.9%	35.0%	113 bps	192 bps	83 bps	69 bps
Operating profit	496	444	1,663	1,658	471	410	1,604	1,754	5.3%	8.4%	3.7%	-5.5%
Operating margin	24.4%	23.3%	23.1%	21.4%	23.4%	21.7%	22.4%	20.8%	97 bps	164 bps	71 bps	60 bps
New Taiwan GAAP EPS	3.22	2.83	10.88	10.58	3.06	2.60	10.48	11.22	5.5%	8.9%	3.8%	-5.7%

Source: J.P. Morgan estimates

We change our valuation methodology from 3x FY09E P/S to 15x FY09E P/E and cut our PT from NT\$190 (Jun-09) to NT\$160 (Dec-09). The stock currently trades at 16.9x/17.3x FY08E/FY09E EPS.

Figure 1: P/adj E bands—12-month forward

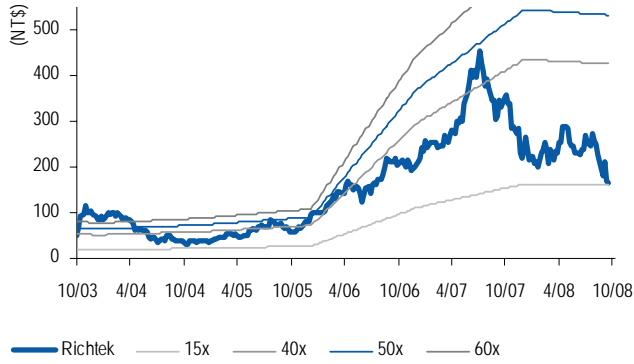
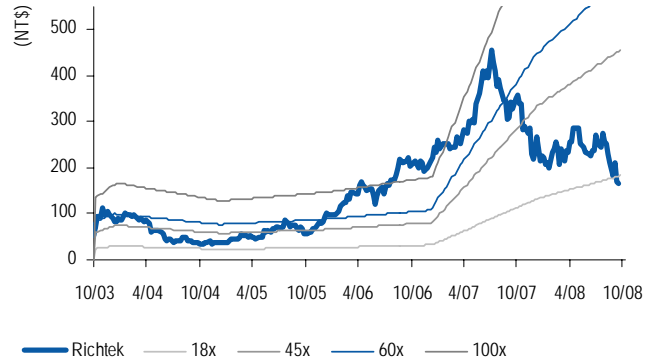
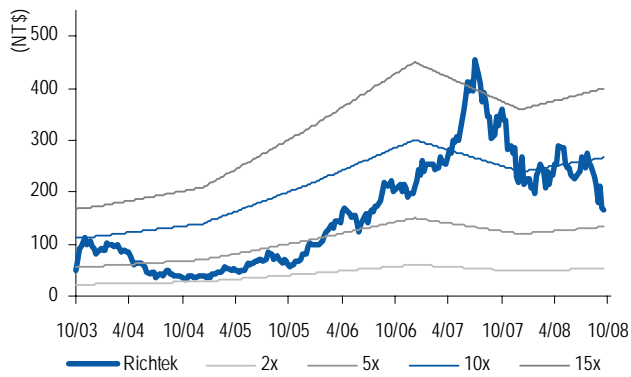


Figure 2: P/adj E bands—12-month trailing



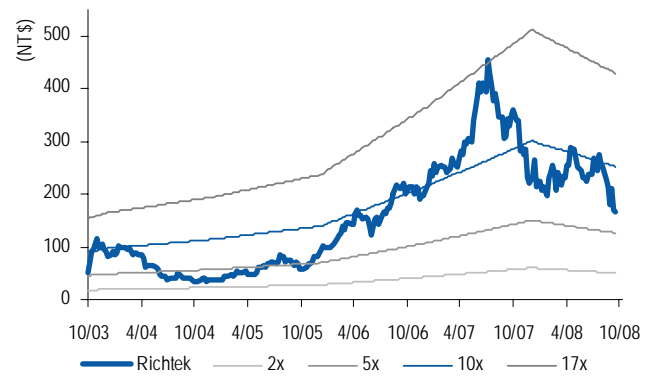
Source: J.P. Morgan.

Figure 3: P/B bands—12-month forward



Source: J.P. Morgan.

Figure 4: P/B bands—12-month trailing



Source: J.P. Morgan.

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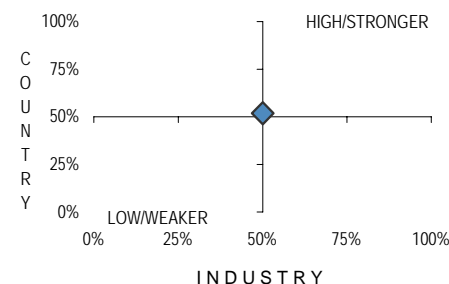
All Data As Of 14-Oct-08

Q-Snapshot: Richtek Technology Corp.

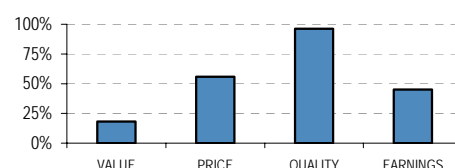
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	12%	24%	1.4x
P/E Vs Sector (12mth fwd EPS)	19%	26%	1.3x
EPS Growth (forecast)	37%	27%	-5.3%
Value Score	18%	18%	
Price Momentum			
12 Month Price Momentum	62%	67%	-46.3%
1 Month Price Reversion	30%	33%	-19.3%
Momentum Score	56%	63%	
Quality			
Return On Equity (forecast)	95%	96%	39.8%
Earnings Risk (Variation in Consensus)	92%	84%	0.05
Quality Score	96%	97%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	26%	18%	-161.8
1 Mth Change in Avg Recom.	28%	20%	-0.17
Net Revisions FY2 EPS	66%	54%	-33%
Earnings & Sentiment Score	45%	32%	
COMPOSITE Q-SCORE* (0% To 100%)	52%	50%	

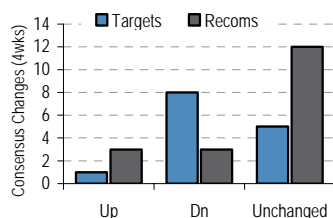
J.P. Morgan Composite Q-Score



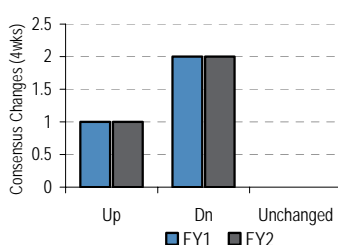
Quant Return Drivers Summary (vs Country)



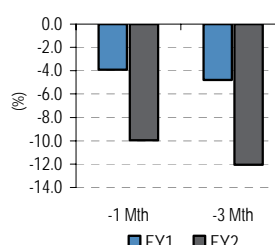
Targets & Recommendations**



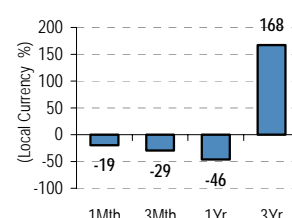
EPS Revisions**



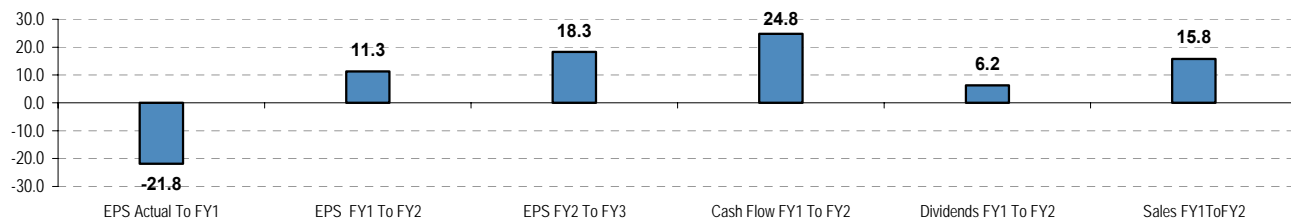
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
2392-TW	Cheng Uei Precision Industry Co. Ltd.	Computer Communications	728	8.94	11.0	40%
2609-TW	Yang Ming Marine Transport Corp.	Marine Shipping	721	4.43	15.9	3%
3037-TW	UniMicron Technology Corp.	Electronic Components	697	8.57	6.8	29%
2903-TW	Far Eastern Department Stores Ltd.	Department Stores	692	9.24	22.2	44%
9921-TW	Giant Manufacturing Co. Ltd.	Recreational Products	665	3.74	9.9	99%
6286-TW	Richtek Technology Corp.	Semiconductors	663	28.27	15.5	52%
2385-TW	Chicony Electronics Co. Ltd.	Computer Peripherals	645	2.56	7.9	98%
2854-TW	Polaris Securities Co. Ltd.	Investment Banks/Brokers	641	7.78	10.2	57%
2315-TW	MiTAC International Corp.	Computer Processing Hardware	616	4.05	6.7	23%
2393-TW	Everlight Electronics Co. Ltd.	Electronic Components	608	16.23	11.2	13%
5347-TW	Vanguard International Semiconductor Corp.	Semiconductors	599	2.22	10.5	26%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Richtek: Summary of financials

NT\$ in billions, year-end December

Income statement						Ratio Analysis					
	FY05A	FY06A	FY07A	FY08E	FY09E		FY05A	FY06A	FY07A	FY08E	FY09E
Revenues	2.68	4.30	6.06	7.20	7.75	Gross Margin	37.5	43.1	42.5	38.7	35.7
Cost of Goods Sold	1.68	2.44	3.49	4.41	4.98	EBITDA margin	24.2	33.1	32.8	25.3	23.6
Gross Profit	1.01	1.85	2.58	2.79	2.77	Operating Margin	21.2	30.7	30.7	23.1	21.4
R&D Expenses	0.27	0.33	0.45	0.40	0.38	Net Margin	6.6	5.2	15.8	19.9	18.3
SG&A Expenses	0.16	0.21	0.26	0.45	0.46	R&D/sales	10.1	7.6	7.5	5.6	4.9
Operating Profit (EBIT)	0.57	1.32	1.86	1.66	1.66	SG&A/Sales	6.1	4.8	4.3	6.2	5.9
EBITDA	0.65	1.42	1.99	1.82	1.83						
Interest Income	0.00	0.01	0.02	0.01	0.01	Sales growth	19.8	60.1	41.1	18.8	7.7
Interest Expense	0.00	0.00	0.00	0.00	0.00	Operating Profit Growth	31.8	131.8	41.0	-10.6	-0.3
Investment Income (Exp.)	-0.01	-0.05	-0.08	-0.09	-0.08	Net profit growth	20.8	27.2	325.3	50.0	-1.4
Non-Operating Income (Exp.)	-0.01	-0.02	0.02	0.00	0.00	EPS (Old Taiwan GAAP) growth	19.9	116.3	38.3	-4.8	-2.9
Earnings before tax	0.55	1.26	1.82	1.59	1.59	EPS (New Taiwan GAAP) growth	14.6	22.5	312.5	46.5	-2.8
Tax	0.00	-0.01	-0.05	-0.15	-0.17						
NI (Old Taiwan GAAP)	0.55	1.24	1.77	1.73	1.70	Net debt to total capital	-43.9	-60.6	-55.5	-46.9	-50.3
NI (New Taiwan GAAP)	0.18	0.23	0.96	1.44	1.42	Net debt to equity	-43.9	-60.6	-55.5	-46.9	-50.3
TWD											
EPS (Old Taiwan GAAP)	4.60	9.95	13.75	13.09	12.70	Asset Turnover	118.1	123.2	124.4	145.7	137.6
EPS (New Taiwan GAAP)	1.47	1.80	7.43	10.88	10.58	Working Capital Turns (X)	2.6	2.6	2.3	2.8	3.1
BPS	13.92	21.46	30.06	23.94	27.37	adj ROE	10.2	8.2	24.4	44.9	38.6
DPS	1.47	1.71	3.92	7.67	7.68	ROIC	35.7	55.4	52.6	40.0	40.9
Shares Outstanding (Mn)	120.32	124.93	128.80	131.86	133.73	ROIC (net of cash)	60.0	115.7	119.6	80.6	78.5
Balance sheet						Cash flow statement					
	FY05A	FY06A	FY07A	FY08E	FY09E		FY05A	FY06A	FY07A	FY08E	FY09E
Cash and cash equivalents	0.76	1.66	2.18	1.50	1.85	Net Income	0.55	1.24	1.77	1.73	1.70
Accounts receivable	0.44	0.57	0.90	1.29	1.51	Depr. & Amortisation	0.08	0.10	0.13	0.16	0.17
Inventories	0.45	0.53	0.67	0.88	1.09	Change in working capital	-0.13	-0.08	-0.30	0.13	-0.24
Others	0.05	0.12	0.13	0.21	0.26	Other	0.00	0.00	0.00	0.00	0.00
Current assets	1.70	2.87	3.88	3.89	4.70	Cash flow from operations	0.51	1.27	1.60	2.02	1.63
LT investments	0.15	0.16	0.40	0.38	0.29	Capex	-0.09	-0.11	-0.16	-0.28	-0.14
Net fixed assets	0.29	0.29	0.32	0.44	0.40	Disposal/ (purchase)	-0.05	-0.03	-0.35	0.06	0.08
Others	0.14	0.16	0.27	0.24	0.24	Cash flow from investing	-0.14	-0.14	-0.51	-0.22	-0.05
Total assets	2.27	3.49	4.87	4.94	5.64	Free cash flow	0.42	1.16	1.45	1.74	1.49
Liabilities						Equity raised/ (repaid)	0.15	0.16	0.18	0.15	0.00
ST loans	0.00	0.00	0.00	0.00	0.00	Debt raised/ (repaid)	0.00	0.00	0.00	0.00	0.00
Payables	0.38	0.53	0.61	0.78	0.96	Other	-0.13	-0.17	-0.25	-1.33	0.08
Others	0.13	0.18	0.28	0.94	0.98	Dividends paid	-0.18	-0.21	-0.50	-1.01	-1.03
Total current liabilities	0.50	0.70	0.89	1.71	1.94	Cash flow from financing	-0.16	-0.22	-0.57	-2.19	-0.95
Long term debt	0.00	0.00	0.00	0.00	0.00						
Other liabilities	0.04	0.05	0.06	0.03	0.03	Net change in cash	0.20	0.90	0.52	-0.39	0.63
Total liabilities	0.55	0.75	0.95	1.74	1.97	Beginning cash	0.56	0.76	1.66	2.18	1.50
Shareholders' equity	1.73	2.74	3.93	3.20	3.67	Ending cash	0.76	1.66	2.18	1.79	2.13

Source: Company data, J.P. Morgan estimates.

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Important Disclosures

Richtek Technology Corporation (6286.TW) Price Chart



Date	Rating	Share Price (NT\$)	Price Target (NT\$)
16-Oct-07	OW	326.36	365.00
21-Jan-08	OW	240.91	314.00
02-Sep-08	OW	245.00	294.00
26-Sep-08	N	196.00	190.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Oct 16, 2007. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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Coverage Universe: **Erica CY Chen:** D-Link Corporation (2332.TW), Novatek Microelectronics Corp. (3034.TW), Richtek Technology Corporation (6286.TW)

J.P. Morgan Equity Research Ratings Distribution, as of September 30, 2008

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	44%	15%
IB clients*	53%	51%	43%
JPMSI Equity Research Coverage	40%	48%	12%
IB clients*	76%	70%	59%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

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